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SUBJECT: SHANGHAI ACADEMICS: ARATS CHAIR VISIT TO TAIWAN A SUCCESS,
BUT ONLY FIRST STEP IN LONG PROCESS

REF: A) TAIPEI 1564; B) SHANGHAI 256

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REASON: 1.4 (b), (d)

¶1. (C) Summary: Shanghai scholars view the recent visit to Taiwan by ARATS Chair Chen Yunlin a "success" mainly for its symbolism and for helping to "maintain momentum" in cross-Straight dialogue. However, they see this visit as only the first "easy" step in a long difficult process. Some scholars think Taiwan's service and aviation industries will immediately benefit from the agreements while others think it will take time for Taiwan's economy to feel any impact. They believe the visit may have given a slight boost to Taiwan President Ma Ying-jeou's domestic political position, but the DPP protests raised concerns in Beijing about Ma's political longevity and his ability to bridge the Blue-Green divide. The scholars do not think the agreements will provide much economic benefit for the Mainland, at least in the near term, though the visit was in line with Beijing's long-term goal of "peaceful development". The visit laid the foundations for future talks on financial issues and "economic normalization", the scholars said, and though Beijing and Taipei will try to skirt sensitive political issues for now, one scholar thinks the two sides are close to agreement on Taiwan's participation in next May's World Health Assembly (WHA). End summary.

Trip a "Success"

¶2. (C) Shanghai scholars all lauded Association for Relations Across the Taiwan Straits (ARATS) Chair Chen Yunlin's visit to Taiwan in early November, characterizing it as a "success". Yang Jian, Research Fellow at the Shanghai Academy of Social Sciences (SASS), said the visit was symbolically significant, as this was the highest level visit ever from the Mainland. Hu Lingwei, Research Fellow at the Shanghai Institute for East Asian Studies, said the visit laid the foundations for future exchanges and "reduced chances of miscommunication" in the future. Both Yang and Wu Xinbo, Professor at Shanghai's Fudan University, believe the visit helped "maintain momentum" in cross-Straight dialogue.

But Only First Step

¶3. (C) Zhong Yan, Research Fellow at the Shanghai Institute for

East Asian Studies, views the visit as only the first "easy" step in a long process. The establishment of direct links will be followed by negotiations on institution-building, with comprehensive agreements on political issues left to the end, he said. Wu Xinbo also said the agreements signed during Chen's visit, which included agreements on air and sea transport, were only the first step (Ref A). He believes China seeks "economic normalization" with Taiwan, noting that Taiwan currently limits imports on over 2000 industrial and agricultural products from China whereas China imposes no such limits on Taiwan products. Wu thinks China will aim to have these restrictions lifted in the future, and then pursue an "institutional economic arrangement" with Taiwan, without which Taiwan would not be able to take part in the ASEAN 10 plus 3 framework as it desires, he said.

Who Benefits?

¶4. (C) The scholars were mixed in their assessment of economic and political benefits of the agreements for both sides. Both Yang Jian and Hu Lingwei think it will "take time" for Taiwan's economy to feel the positive impact of the direct links, but they were not clear about the economic benefits, if any, for the Mainland. Yang, instead, spoke of the Mainland gaining political capital from its show of "goodwill", "tolerance", and "magnanimity" towards Taiwan. According to Yang, China was able to show that "it will not forcefully push Taiwan towards immediate resolution" of difficult political issues. Hopefully, such gestures will convince the "light Greens" in Taiwan to shift toward the center, he said.

¶5. (C) Zhong Yan and Wu Xinbo think there will be some near-term economic benefits for Taiwan. Zhong noted that Taiwan

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firms with factories in the Mainland will be able to export their products from more ports in the Mainland, allowing them to reduce transportation costs. In addition, because direct flights between Taipei and Shanghai will no longer have to fly over Hong Kong airspace, significantly reducing flight times, many Taiwan firms may move their back-office and service functions from the Mainland back to Taiwan, he speculated (Ref B). This would result in more service jobs in Taiwan but would cause the loss of service jobs in the Mainland since only factories would remain, Zhong added. According to Zhong, the agreements helped advance Taiwan's ultimate goal of becoming an HR and logistics center for the Asia-Pacific region. Wu Xinbo thinks the immediate beneficiary of the agreements will be the aviation industry, since direct flights would reduce costs by one-third, he estimates. Unlike the other scholars, however, he is less optimistic about the long-term benefits for Taiwan's economy which, he noted, is closely interlinked with the United States, Japan, and other struggling markets. "This (agreement) alone cannot solve Taiwan's economic problems," Wu stated.

¶6. (C) The scholars believe the visit may have helped Taiwan President Ma Ying-jeou's domestic political standing in the short-term, but only slightly if at all. Any long-term political gain depends on the economic impact of the agreements, the scholars said. Wu Xinbo thinks that, even if Taiwan's economy does not improve substantially over the next few years, Ma can still point to overall progress in cross-Strait relations as part of his legacy.

Impressions of DPP

¶7. (C) Yang Jian thinks the visit helped unite Taiwan's opposition Democratic Progressive Party (DPP). Though internal struggles in the party were evident earlier this year, especially leading up to the Taiwan presidential election in March 2008, the visit helped galvanize the opposition, he said. Hu Lingwei disagreed, saying the DPP protests were only led by "local DPP legislators" who do not command island-wide support. He noted how the main DPP leaders, like Tsai Ying-wen, did not condone the violent protests since she understands that the majority of Taiwan people want "rational, peace-minded" leaders.

Wu Xinbo thinks it was good that Chen Yunlin was able to see first-hand the difficult domestic situation Ma faces. On the other hand, though, Chen probably came away appalled by the "disorderly behavior (of the protestors) and immaturity of Taiwan democracy," Wu said.

Next Steps

¶8. (C) Chen's visit set the agenda for future bilateral talks, said Wu Xinbo. According to Zhong Yan, discussions covering financial and banking issues are next on the agenda, and an MOU on these issues will be signed "by early next year." The scholars agreed that any agreement on sensitive political issues, like international space, will be postponed until much later, both Hu Lingwei and Wu stating that "it is not the right time" to discuss these issues. However, Wu was fairly optimistic that both sides are "close to reaching an agreement" on Taiwan's participation in the World Health Assembly (WHA) next May under the nomenclature "Chinese Taipei". He also thinks Beijing might make some symbolic gesture on the security front by, for example, reducing the number of missiles in Fujian, though he acknowledged this was pure speculation.

Mainland's Concerns

¶9. (C) According to the scholars, the Mainland views cross-Straight relations from a long-term perspective, and Chen's visit was successful in promoting Beijing's goal of "peaceful development". However, Beijing's current concerns are that a) Ma might not remain in office beyond 2012; and b) Ma may become too demanding in order to boost his domestic position, according to Yang Jian. In this regard, Yang said the DPP, ironically, is helping Beijing since "Ma would be even more demanding" if he did not face any domestic opposition. Wu Xinbo thinks scenes of violent protest during the visit raised concerns in Beijing about whether Ma will be able to eventually narrow the gap between the Blue and Green camps.

On Chen Shui-bian's Arrest

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¶10. (C) None of the scholars expressed surprise at former Taiwan President Chen Shui-bian's recent arrest on corruption charges. Wu Xinbo flatly stated that "Chen is obviously corrupt and should be jailed." The only question is whether or not Ma will pardon him, something which could help bridge the gap with the Greens but would also alienate some members of the KMT, he added.

Comment

¶11. (C) The general feeling among the Shanghai scholars is that the visit's primary aim was to boost Ma Ying-jeou's domestic position. Though they were pessimistic that Ma would be able to bridge the Blue-Green divide, they sounded hopeful that the "light Greens" would be convinced of the Mainland's "peaceful" intentions and eventually swing the political pendulum in Ma's favor. The scholars' views, especially Yang Jian's comment about the Mainland's "magnanimity" and "tolerance", radiated a sense of confidence that the current trajectory of cross-Straight relations is in line with Beijing's long-term plans. On the economic front, it remains to be seen what impact the agreements will have on the many Taiwan businesses based in the Shanghai area. (To be reported septel).

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